GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of The Yellowstone Bank, Laurel, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of November 3, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

Several factors support rating the bank's CRA performance satisfactory. First, the bank actively lends to borrowers of different income levels and to businesses of different sizes. Second, its loans are reasonably distributed throughout the bank's assessment areas. Third, the bank's net loan-to-deposit ratio indicates that the bank actively extends credit. Finally, the bank originated more than a majority of its loans in its assessment areas.

DESCRIPTION OF INSTITUTION

The bank is able to meet the credit needs of its assessment areas effectively. This is the bank's first evaluation since three affiliated banks merged with the bank on October 18, 1996. The three institutions that merged with the bank were The Yellowstone Bank of Absarokee, Montana, Absarokee, Montana; The Yellowstone Bank of Columbus, Montana, Columbus, Montana; and The Yellowstone Bank, Billings, Montana. At the last evaluation, dated June 3, 1996, the bank received a satisfactory CRA rating. The last evaluations of the three affiliated banks revealed that these institutions were also satisfactorily meeting the requirements of the CRA. The bank operates four full-service offices and six automated teller machines ("ATM") serving four eastern Montana counties. Two of the six ATMs are cash-dispensing-only machines.

Based on the location of its offices and its lending territories, the bank has defined two assessment areas for the purposes of CRA. The first assessment area includes most of Yellowstone County, which is in the Billings, Montana, metropolitan statistical area ("MSA"). The Billings and Laurel branch offices are in the bank's MSA assessment area. The second assessment area includes all of Stillwater County and sections of Carbon and Golden Valley counties. The Absarokee and Columbus offices are in the bank's non-MSA assessment area. More specifically, these two branch offices are in Stillwater County. This CRA evaluation is based on a review of both assessment areas.

The bank's main office is located in Laurel, Montana, approximately 15 miles west of Billings. Branch offices are located in Billings, Columbus, and Absarokee. Columbus is approximately 35 miles west of Billings, and Absarokee is 14 miles south of Columbus. All of the bank's offices are located in middle-income geographies. A geography is a census tract or block numbering area ("BNA") as delineated by the U.S. Bureau of the Census. Four of the bank's ATMs are located at or adjacent to bank offices. These ATMs accept deposits and are available 24 hours a day. As previously noted, the bank has two cash-dispensing-only ATMs; one of these ATMs is located at a convenience store in the Billings Heights section of Billings and the other is at a supermarket in Columbus. Both of the cash-dispensing-only ATMs are available during store hours and have been added since the last evaluation of the bank and its affiliates. The bank also has a 24-hour telephone banking service. This service allows bank customers to make account inquiries, loan payments, and transfer funds between accounts. Customers outside the local calling area access the telephone bank with a toll-free number. In September 1996, the bank established an Internet homepage. The homepage provides general information about the bank and allows the public to send electronic mail to the bank.

The bank's size does not restrict its ability to meet the credit needs of residents, businesses, and farms within its assessment areas. According to the September 30, 1997, Report of Condition ("ROC"), the bank had total assets of approximately $177 million. In the four quarters since the merger, the bank's total assets increased by $13.7 million, or 8.4%. During the same time period, net loans increased by $7.9 million, or 10.3%, and deposits increased by $6.2 million, or 4.9%. As this data show, the bank's net loans have increased faster than deposits, which the bank was aggressively pricing during this time period.

The September 30, 1997, ROC indicates that the bank is primarily a commercial lender; approximately 54% of its portfolio consist of commercial loans. The balance of the loan portfolio consists of 26% agricultural, 13% consumer real estate, and 7% consumer loans. The loan portfolio, however, does not include the significant number of consumer real estate loans that the bank sells to the secondary market.

The composition of the bank's loan portfolio reflects the level of demand for specific types of credit by residents, businesses, and farms in the bank's two assessment areas.

The bank offers a variety of loan products that serve the credit needs of the residents, businesses, and farms within its assessment areas. It extends closed-end consumer, residential real estate, commercial, and agricultural loans. In addition to offering these conventional loan products, the bank participates in federal and state loan programs offered by the Small Business Administration, Farm Service Agency, Rural Development, Federal Housing Administration ("FHA"), Department of Veterans Affairs ("VA"), and Montana Board of Housing ("MBOH"). The MBOH programs are directed to low- and moderate-income borrowers and include a first-time homebuyer program for single-parent families. To help serve the credit needs of low- and moderate-income, first-time homebuyers in Laurel, the bank participates in a special city loan program.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in fulfilling the credit needs of its assessment areas is satisfactory. As previously stated, this evaluation is based on a review of the bank's CRA performance in both of the bank's assessment areas. Most of the analysis on the following pages is based on a statistical sample of 119 small business/small farm loans, 109 consumer loans, and 103 residential real estate loans originated in the six months preceding the evaluation. The bank's lending is generally concentrated in the Billings/Laurel assessment area. However, because the Columbus/Absarokee assessment area has an agriculture-based economy, the bank extends a large number of small business/small farm loans in this assessment area. For the sampled loans, the following table illustrates the loan distribution by category in each assessment area.

Assessment Area	Consumer Loans	Small Business/ Small Farm	Residential Real Estate
Billings/Laurel	55%	34%	58%
Columbus/Absarokee	45%	66%	42%

The criteria discussed below were reviewed in determining the bank's overall rating. Since the bank has offices located in an MSA, it must report data regarding its real estate loan application activity pursuant to the Home Mortgage Disclosure Act ("HMDA"). Because the bank merged in 1996, it was not required to report loans originated in the Columbus or Absarokee offices in 1996. This evaluation includes a review of the bank's 1996 HMDA-reportable loan applications relative to other lenders in the MSA. In assigning weight between the two assessment areas for purposes of rating the bank's overall CRA performance, the greatest weight was placed on the bank's activities in the Billings/Laurel assessment area because the bank extends more than a majority of its loans in this assessment area. In assigning weight among the different performance categories for purposes of rating the bank's overall performance, the greatest weight was placed on the assessment of lending to borrowers of different income levels and businesses of different sizes. This factor, along with the geographic distribution of loans in the assessment areas, most closely measures the bank's success in meeting the credit needs of all segments of the assessment areas.

OVERALL INSTITUTION ANALYSIS

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio meets the standards for satisfactory performance based on its consistent level, the quarterly average net loan-to-deposit ratios of competitor institutions, the loan demand in the assessment areas, and the lack of any identified unmet credit needs in the assessment areas. In the four quarters since the bank merger, the quarterly average of the bank's net loan-to-deposit ratio is 63.3%. The following chart, based on quarterly ROC data, shows the steady growth of the bank's loans and deposits.

DATE	NET LOANS	DEPOSITS	NET LOAN-TO-DEPOSIT RATIO
September 30, 1997	$84,952	$131,037	64.8%
June 30, 1997	$83,007	$127,534	65.1%
March 31, 1997	$76,059	$123,962	61.4%
December 31, 1996	$77,030	$124,886	61.7%

According to the June 30, 1997, Uniform Bank Performance Report, the bank's 65.1% net loan-to-deposit ratio is below its national peer group average of 72.1%. As of the same date, the bank's net loans-to-assets ratio was 48.48%, which is lower than the 64.24% average net loans-to-assets ratio for Montana banks with assets of at least $100 million. This data show that the bank devotes fewer assets to net loans than comparably sized institutions in the state. Not included in the bank's net loan-to-deposit ratio data, however, is the significant number of consumer real estate loans sold to the secondary market since the last evaluation. In addition, the bank has had a substantial increase in deposits during the past four quarters due to an aggressive pricing policy and the introduction of a new money market savings account.

Bank management identified several financial institutions with offices in communities within the bank's two assessment areas as bank competitors. In Billings, competitors include First Interstate Bank of Commerce; Norwest Bank Montana, N.A.; and Rocky Mountain Bank. Bank management identified First Security Bank of Laurel and Laurel Federal Credit Union as competitors in Laurel. It identified two competitors in the bank's Columbus/Absarokee assessment area: United Bank of Absarokee, N.A., Absarokee, and United Bank of Columbus, N.A., Columbus. The following table shows the quarterly average net loan-to-deposit ratios for the bank and its competitors and is based on quarterly ROC data for December 31, 1996; March 31, 1997; and June 30, 1997. The June 30, 1997, data is the most recently published data available for the competitor institutions. Data for some of the competitors listed by bank management are not included in the table because these banks' structures do not permit a meaningful comparison.

BANK	TOTAL ASSETS June 30, 1997 (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
The Yellowstone Bank Laurel, Montana	$171,203	62.7%
Rocky Mountain Bank Billings, Montana	$239,545	73.3%
First Security Bank of Laurel Laurel, Montana	$21,914	56.8%
United Bank of Absarokee, N.A. Absarokee, Montana	$21,256	67.5%
United Bank of Columbus, N.A. Columbus, Montana	$5,982	47.2%

United Bank of Columbus, N.A., is a de novo institution that opened October 1996. Rocky Mountain Bank has several branches outside Billings. Bank management indicated that the banking environment is very competitive. In addition to the financial institutions listed above, there are several nonbank entities extending credit to residents, businesses, and farms within the bank's assessment areas. Information from community contacts and bank management did not identify any unmet credit needs in the assessment areas.

Based on the competition, the bank's consistent and increasing net loan-to-deposit ratio, its strong secondary market lending, and the lack of any identified unmet credit needs, the bank's net loan-to-deposit ratio meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREAS

The bank's lending in its assessment areas exceeds the standards for satisfactory performance in this category. A review of the statistical loan sample reveals that the bank originated a substantial majority of its loans inside the assessment areas. The following table shows the percentage of loans within the assessment area for each sampled category by total number and dollar amount.

LOANS IN THE ASSESSMENT AREA		
Loan Type	**Total Number of Loans**	**Total Amount of Loans**
Consumer	93%	91%
Residential Real Estate	87%	86%
Small Business/Small Farm	89%	85%

Given the very high concentration of loans originated within the assessment area, the bank exceeds the standards for satisfactory performance in this category.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO

BUSINESSES OF DIFFERENT SIZES

As discussed in detail for each of the bank's assessment areas, the distribution of loans to borrowers of different income levels and businesses of different sizes exceeds the standards for satisfactory performance in this category. The bank extends consumer and residential real estate loans to borrowers of various income levels. The bank's level of consumer lending to low- and moderate-income borrowers is strong in both assessment areas. The high cost of housing in both assessment areas somewhat limits the demand for real estate loans by low- and moderate-income borrowers. In addition, a review of the bank's HMDA data indicates that the bank's lending to low-income borrowers is consistent with other lenders in the MSA and its lending to moderate-income borrowers is higher than other lenders in the MSA. Finally, the loan data show the bank actively extends loans to small businesses and small farms in both assessment areas. Given its strong performance of lending to low- and moderate-income borrowers in the metropolitan assessment area and very good performance of lending to such borrowers in the nonmetropolitan assessment area, the bank exceeds this category's standards for satisfactory performance. Additional detail about each assessment area as well as the bank's lending to borrowers of different income levels and to small businesses and farms is provided on the following pages of this evaluation.

GEOGRAPHIC DISTRIBUTION OF LOANS

As discussed in detail for each of the bank's assessment areas, the distribution of the bank's loans throughout its assessment areas is reasonable and meets the standards for satisfactory performance. The 26 Billings/Laurel assessment area census tracts range from low to upper income; however, most of the census tracts are classified as middle income. The loan data show that the bank has good penetration in the Billings/Laurel assessment area's middle-income census tracts. The bank has a lower penetration rate in the Billings/Laurel assessment area's low- and moderate-income census tracts, but these geographies are located farther from the bank's offices and some offer limited lending opportunities. The Columbus/Absarokee assessment area consists of one moderate-income BNA and eight middle-income BNAs. The distribution of loans in this assessment area is reasonable. Additional detail about each assessment area as well as the bank's lending performance in geographies of various income levels throughout the assessment areas is provided on the following pages of this evaluation.

DESCRIPTION OF THE YELLOWSTONE BANK'S BILLINGS/LAUREL, MONTANA, METROPOLITAN ASSESSMENT AREA

The Billings/Laurel metropolitan assessment area includes 26 census tracts in Yellowstone County. The entire county, consisting of 27 census tracts, comprises the Billings, Montana, MSA. The bank's assessment area does not include census tract 15, which is in the rural, eastern section of the MSA. As of the 1990 census data, the assessment area had a total population of 107,294, representing 95% of the MSA's population. Billings is the largest city in Montana and had a population of 81,151 in 1990. Laurel is the only other incorporated city in the county. Its 1990 population was 5,686.

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower or geography's income level is determined relative to the MSA median family income for an MSA area and the statewide nonmetropolitan median family income for a non-MSA area. Low-income individuals have incomes of less than 50% of the MSA or statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of these amounts. The regulation defines middle-income individuals as people with incomes of at least 80% but less than 120% of the MSA or statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of the MSA or statewide nonmetropolitan median family income are considered upper-income individuals. Census tracts and BNAs are classified using similar categories based on the level of the median family income in the geography. According to 1990 census data, the Billings, Montana, MSA and statewide nonmetropolitan median family incomes were $31,534 and $27,354, respectively. These figures are used to classify a geography's income level. According to the 1997 updated census data, the Billings MSA and the statewide nonmetropolitan median family incomes are $43,900 and $36,100, respectively. These figures are used to classify borrowers' income levels.

The median household and family incomes in the bank's metropolitan assessment area are $25,833 and $31,566, respectively. Based on 1990 U.S. Census data, the following table reveals the income distribution of households and families in the bank's metropolitan assessment area.

METROPOLITAN ASSESSMENT AREA INCOME DISTRIBUTION				
	Low Income	Moderate Income	Middle Income	Upper Income
Households Compared to Median Household Income	24%	16%	20%	40%
Families Compared to Median Family Income	19%	18%	25%	38%

Within the metropolitan assessment area, approximately 13% of the households and 9% of the families have incomes below the poverty level. The relative number of such households and families is lower for the metropolitan assessment area than for the state generally.

As previously mentioned, the Billings/Laurel assessment area includes 26 census tracts. The following table shows the distribution of the census tracts by income level.

	Low-Income Census Tracts		Moderate-Income Census Tracts		Middle-Income Census Tracts		Upper-Income Census Tracts	
	Number	%	Number	%	Number	%	Number	%
Billings/Laurel	2	7.7	4	15.4	14	53.8	6	23.1

The two low-income census tracts, 1 and 3, are located in the southern part of the metropolitan assessment area. According to 1990 census data, the population of the two tracts is approximately 4% of the total assessment area population. Census tract 1 has a population of 788, while census tract 3 has a population of 3,300. The median family income in census tract 1 is $7,515, or 23.8% of the MSA median family income. The median family income in census tract 3 is $13,856, or 43.9% of the MSA median family income. Of the 1,972 households in these census tracts, 39.7% have incomes below the poverty level. Of the households and families in the metropolitan assessment area's low-income census tracts, approximately 67.0% of the households and 58.3% of the families are low income. In these areas, 15.5% of the households and 21.0% of the families are moderate income.

The four moderate-income census tracts, 2, 4, 9.01, and 9.02, are also located in the southern part of the metropolitan assessment area. Approximately 15% of the population live in these tracts. The moderate-income census tracts' median family incomes range from $17,905 to $25,014, which are 56.8% to 79.3% of the MSA median family income, respectively. There are 7,137 households in the metropolitan assessment area's moderate-income census tracts. Of these households, 20.1% have incomes below the poverty level. Of the households and families in the moderate-income census tracts, approximately 36.2% and 33.3%, respectively, are low income and 21.3% and 22.7%, respectively, are moderate income.

The metropolitan assessment area has 14 middle-income census tracts. The middle-income census tracts are 5, 7.02, 7.03, 8, 10, 11, 12, 14, 16, 17.01, 17.02, 18.02, 18.03, and 19. Approximately 62% of the assessment area's population live in the middle-income tracts. The middle-income census tracts have median family incomes ranging from $25,304, or 80.2% of the MSA median family income, to $37,370, or 118.5% of the MSA median family income. At the low end of the range for classification as a middle-income geography are census tracts 19 and 10, which have median family incomes that are 80.2% and 80.7% of the MSA median family income, respectively. The bank's Laurel office is located in census tract 19. The Billings office is located in census tract 17.02. Of the 26,317 households in the metropolitan assessment area's middle-income census tracts, 10.7% have incomes below the poverty level. In these census tracts, approximately 21.1% of the households and 17.7% of the families are low income, while 17.0% of the households and 19.3% of the families are moderate income.

Finally, the metropolitan assessment area has six census tracts classified as upper-income geographies. These census tracts are 6, 7.01, 7.04, 13, 18.01, and 18.04, which are located in the northern and western parts of Billings. Approximately 19% of the metropolitan assessment area's population reside in upper-income census tracts. Of the 7,219 households in these tracts, only 5.4% have incomes below the poverty level. In these census tracts, approximately 10.6% of the households and 7.5% of the families are low income, while 8.8% of the households and 10.1% of the families are moderate income.

The HMDA data reveal that many creditors originate residential real estate loans in the bank's metropolitan assessment area. In 1996, 98 lenders reported extending such loans in the bank's metropolitan assessment area. Of those lenders extending loans in the metropolitan assessment area, four institutions shared 42.1% of the market. Because the bank's merger took place at the end of 1996, the bank's Billings and Laurel offices separately reported HMDA data. The combined data for the Billings and Laurel offices show that the bank was the ninth most active originator of HMDA-reportable loans in the metropolitan assessment area.

Examiners contacted a local government official familiar with the economic conditions of Yellowstone County as part of the CRA evaluation process. Information obtained from this individual and from bank management was used in evaluating the bank's CRA performance.

The Billings/Laurel metropolitan assessment area is economically diverse. While parts of this assessment area are urban, other parts continue to be used for agriculture. The primary agricultural commodities in Yellowstone County are wheat, sugar beets, and beef cattle. The county is home to three oil refining facilities that produce asphalt, gasoline, and sweet crude oil. One of these refineries is in Laurel and is a major employer of residents in that community. Other major industries, particularly in Billings, include medical services, government offices, retail business, and financial services. The unemployment rate has been stable at 4%.

Affordable housing continues to be an issue for the metropolitan assessment area. According to the 1990 census data, there are 46,268 housing units in the assessment area, of which approximately 60% are owner-occupied, 32% are rental units, and 8% are vacant. The low-income tracts have 545 owner-occupied units, and moderate-income tracts have 3,503 owner-occupied units. These units represent 2.0% and 12.7% of assessment area owner-occupied units, respectively. The median value of housing in the assessment area is $62,797, according the 1990 census data. The data also indicate that the housing stock is relatively new, less than 20% of the housing units were built before 1950. Rental housing in the assessment area is expensive. Slightly more than 38% of the metropolitan assessment area's renters allocate more than 30% of their income to rent expense.

One impediment to addressing the affordable housing problems that afflict the metropolitan assessment area is the structure, or lack thereof, of many local communities. Many communities in Montana are unincorporated and, therefore, have no governing bodies. According to the community contact, the absence of a governing body in an unincorporated community limits the availability of government and grant money that could be used to address affordable housing problems. Several unincorporated communities are located just outside the Billings city limits. Recognizing its affordable housing problems, Laurel has developed a loan program for low- and moderate-income first-time homebuyers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA--BILLINGS/LAUREL METROPOLITAN ASSESSMENT AREA

The bank's CRA performance in the Billings/Laurel metropolitan assessment area meets the standards for satisfactory performance. In assigning the rating, the greatest weight was assigned to the bank's level of lending to borrowers of different income levels and businesses and farms of different sizes and the geographic distribution of the bank's loans. These factors most closely measure the bank's efforts to meet the credit needs of the metropolitan assessment area.

Loan-to-Deposit Ratio

As discussed on page 5, the bank's net loan-to-deposit ratio is consistent with the lending levels of its competitors. As of September 30, 1997, the bank's net loan-to-deposit ratio for the Billings/Laurel assessment area offices was approximately 67%, higher than the bank's overall net loan-to-deposit ratio of 64.8%. The Billings and Laurel offices booked approximately 72% of the bank's net loans and 70% of the bank's deposits.

As previously mentioned, the bank is required to report residential real estate loan application data pursuant to HMDA. The data revealed that the bank is not a leading lender of HMDA-reportable loans in the metropolitan assessment area. In 1996, the bank's loans represented approximately 3% of the total activity in the metropolitan assessment area. The bank's loan activity is widely dispersed among various types of loans including conventional, FHA, VA, and refinancing loans. Given the competitive banking market in Billings, the bank's level of HMDA-reportable lending is reasonable.

Based on the consistent level of the bank's loan-to-deposit ratio and its level of HMDA lending in the assessment area, the bank meets the standards for satisfactory performance in this category.

Comparison of Credit Extended Inside and Outside the Assessment Area

As discussed on page 6, the bank makes a significant majority of its loans within its two assessment areas. The analysis of the bank's HMDA data provides limited insight into the bank's lending activity in the assessment areas. The bank originates all of the loans it sells on the secondary market out of the Billings office regardless of the location of the property. Therefore, loans reported for HMDA may be outside the metropolitan assessment area of Billings and Laurel but in the bank's nonmetropolitan assessment area of Columbus and Absarokee. In 1996, approximately 57.5% of the HMDA-reportable loans were in the metropolitan assessment area. Given the structure of the bank, this concentration is reasonable. As previously discussed, the bank exceeds this category's standards for satisfactory performance.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

The bank's level of lending to borrowers of different income levels and to businesses of different sizes exceeds the standards for satisfactory performance in this assessment area. As previously discussed, CRA classifies borrowers' income into four categories: low, moderate, middle, and upper. For purposes of classifying the bank's borrowers in this assessment area, the 1997 Billings, Montana, MSA median family income is compared with borrowers' incomes. The following table shows the percentage of consumer and residential real estate loans to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS*				
Loan Type	**Low-Income Borrowers**	**Moderate-Income Borrowers**	**Middle-Income Borrowers**	**Upper-Income Borrowers**
<u>Consumer</u>				
Total Number of Loans	50%	17%	28%	5%
Total Amount of Loans	39%	15%	31%	15%
<u>Residential Real Estate</u>				
Total Number of Loans	16%	18%	31%	35%
Total Amount of Loans	8%	12%	30%	50%
*Income level based on 1997 Billings, Montana, MSA median family income of $43,900 or 1997 Montana statewide nonmetropolitan income of $36,100.				

The data in the table indicate that the bank originated a significant majority, 67%, of its consumer loans to low- and moderate-income borrowers. In addition, 34% of its residential real estate loans were made to low- and moderate-income borrowers. As previously mentioned, approximately 40% of the households and 37% of the families in the metropolitan assessment area are classified as low and moderate income. Included in these figures are the 13% of assessment area households and 9% of assessment area families with incomes below the poverty level. As the data reveal, the bank's actively extends consumer loans to low-income borrowers, and its performance is significantly higher than expected given the demographics of the metropolitan assessment area. Probably reflecting the affordable housing shortage throughout the metropolitan assessment area, the bank's residential real estate lending to low-income borrowers is slightly lower than expected given the metropolitan area's demographic characteristics. In both loan categories, the bank's performance involving credit extensions to moderate-income borrowers is generally the same as the representation of moderate-income households and families in the metropolitan assessment area.

The HMDA data provide additional information to assess the bank's lending activity to low- and moderate-income borrowers. The 1996 HMDA data also show that the bank actively lends to low- and moderate-income borrowers. The data reveal that the bank made approximately 38% of its reported loans to low- and moderate-income borrowers. More specifically, the bank extended 8.7% of its HMDA-reportable loans to low-income borrowers and 29.1% of these loans to moderate-income borrowers. With respect to credit originations to low-income borrowers, the bank's performance matches the activity of the aggregate lenders in the metropolitan assessment area. However, the bank's activity with respect to credit originations to moderate-income borrowers exceeds that of the aggregate lenders, which reported that 22.5% of the HMDA-reportable loans were extended to moderate-income borrowers. The bank is commended for its residential real estate lending to low- and moderate-income borrowers.

To better serve the residential real estate credit needs of low- and moderate-income people in the metropolitan assessment area, the bank participates in loan programs offered by state and local governments. The bank actively originates loans through MBOH loan programs that are targeted to low-and moderate-income individuals. In addition, the bank has also been an active lender in Laurel's first-time homebuyer program. Although the city established the program several years ago, it had little activity until the bank provided the program's administrators with technical assistance in developing a loan package that could be sold on the secondary market. The bank is commended for participating in loan programs, especially the Laurel program, that benefit low- and moderate-income borrowers.

A review of the bank's small business/small farm loan sample reveals that the bank makes a significant majority of its small businesses/small farms loans to entities with gross annual revenues of $1 million or less. A small business loan is a loan with an original principal amount of $1 million or less. A small farm loan is a loan with an original principal balance of $500,000 or less. The data in the loan sample indicate that the bank made 89% of its small business/small farm loans to entities with gross annual revenues of $1 million or less. Lenders subject to CRA's data-reporting requirements originated 69% of the aggregate number of small business/small farm loans to entities with gross annual revenues of $1 million or less.

An analysis of small business/small farm loan sizes revealed that the loan data was skewed by a few large loans. Of the 36 loans in the sample, 5 loans were for amounts between $250,000 and $1 million; these loans represented 64% of the total amount of loans in the sample. The bank originated 27 loans with amounts of $100,000 or less, but this represented just 19% of the total amount of loans in the sample. The loan data revealed that 75% of the number of small business/small farm loans had original principal amounts of $100,000 or less, 11% had original principal amounts of more than $100,000 but less than or equal to $250,000, and 14% had original principal amounts of more than $250,000 but less than or equal to $1 million. The loan size distribution is similar for small business/small farm loans to entities with gross annual revenues of $1million or less. As discussed earlier, commercial and agricultural loans are 80% of the loan portfolio. Lenders subject to CRA's data reporting requirements reported that 87% of the small business/small farm loans had original principal amounts of $100,000 or less. The bank's level of small business/small farm lending is slightly lower than the aggregate lenders' activity; however, because the sample period included a small number of loans, the impact of the large loans is overstated.

Based on the bank's high level of consumer lending to low- and moderate-income borrowers, its HMDA-reportable loan originations to low- and moderate-income borrowers, its participation in real estate loan programs that benefit low- and moderate-income borrowers as well as the high level of small business and small farm loan originations, the bank exceeds the standards for satisfactory performance in this category.

<u>Geographic Distribution of Loans</u>

The distribution of the bank's loans throughout the metropolitan assessment area is reasonable. As previously mentioned, the assessment area includes 2 low-income census tracts, 4 moderate-income census tracts, 14 middle-income census tracts, and 6 upper-income census tracts. The following table illustrates the distribution of loans in the sample by census tract income level.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL				
Loan Type	**Low-Income Census Tracts**	**Moderate-Income Census Tracts**	**Middle-Income Census Tracts**	**Upper-Income Census Tracts**
Consumer				
Total Number of Loans	0%	5%	86%	9%
Total Amount of Loans	0%	7%	78%	15%
Residential Real Estate				
Total Number of Loans	0%	6%	75%	19%
Total Amount of Loans	0%	4%	68%	28%
Small Business/Small Farm				
Total Number of Loans	6%	8%	83%	3%
Total Amount of Loans	25%	2%	73%	-

As the data indicate, the bank has not extended any consumer or residential real estate loans in the low-income census tracts. The bank's performance in the low-income tracts is reasonable considering the demographics of the tracts and the location of the bank's offices. The low-income tracts are located in Billings' downtown commercial district. There are several financial institutions with offices in or very near these census tracts. The bank's Billings office is located on the western edge of the city. Perhaps more important, the families and households that reside in these metropolitan assessment area's low-income census tracts have incomes significantly below the median income for the MSA. Approximately 40% of the households in the low-income tracts had incomes below the poverty level. Fifty percent of the households in the low-income tracts devoted more than 30% of their income to rent expense. This percentage generally would not allow someone to qualify for a consumer loan using generally accepted underwriting standards.

There are several impediments limiting the bank's ability to extend residential real estate loans to people who reside in the metropolitan assessment area's low-income census tracts. First, only 2% of the metropolitan assessment area's owner-occupied housing units are in low-income census tracts. Second, owner-occupied units are 22.4% of housing units in low-income census tracts, while rental units are 60.0% of the units in these areas. Third, as previously noted, the metropolitan assessment area's low-income census tracts are in Billings' downtown commercial district, and several financial institutions have offices in or very near this area. Finally, housing prices in Billings are relatively high. Given the limited opportunities to extend residential real estate loans in the metropolitan assessment area's low-income census tracts, high housing prices, and the bank's Billings office location, the bank's residential real estate loan activity in low-income census tracts appears reasonable.

The bank's level of lending in the moderate-income census tracts is low but not unreasonable. Approximately 13% of the metropolitan assessment area's owner-occupied units are in moderate-income census tracts. Of the 8,051 housing units in these census tracts, 44% are owner-occupied and 45% are rental units. According to 1990 census data, the median household income for the moderate-income tracts was $17,477. As previously noted, approximately 20% of the households residing in moderate-income census tracts have incomes below the poverty level. Residents of the moderate-income census tracts have limited means to service debt. Given the demographic characteristics of the moderate-income census tracts and the high housing prices in the assessment area, it appears that the bank's consumer and residential real estate lending levels in the metropolitan assessment area's moderate-income census tracts are reasonable.

Compared to the activity of the aggregate lenders in the metropolitan assessment area, the bank's HMDA-reportable lending activity to borrowers in the low- and moderate-income census tracts is low. This performance probably reflects that fact that the bank does not offer a competitive home-improvement loan product or home equity lines of credit. The factors discussed above also limit the bank's ability to extend HMDA-reportable loans in the metropolitan assessment area's low- and moderate-income census tracts. Information from community contacts did not indicate that the low- and moderate-income tracts are not being served by financial institutions.

The bank has originated small business loans in the metropolitan assessment area's low-income census tracts. In fact, the bank extended 25% of the total loan amount of small business/small farm loans in the metropolitan assessment area's low-income census tracts. As the data reflect, however, the bank's small business/small farm lending is concentrated in middle-income census tracts. Currently, most new business development growth is occurring in Billings' West End area, which is where the bank's Billings office is located. The census tracts in this area are classified as middle income. Given these market characteristics, the bank's small business/small farm lending appears reasonable.

Although the bank's lending activity in the metropolitan assessment area's low- and moderate-income census tracts is limited, it appears reasonable. As discussed, the bank's Billings office is located in the city's West End area, a middle-income area. The metropolitan assessment area's low- and moderate-income census tracts are in the city's downtown commercial district. Residents and businesses in these areas are more conveniently served by financial institutions with offices in the downtown area. Further, given the demographic characteristics of the metropolitan assessment area's low- and moderate-income census tracts, it appears the opportunities to extend consumer and residential real estate loans are somewhat limited. Given the bank's size and location as well as the demographic factors described above, the bank's lending to geographies of different income levels is reasonable and meets the standards for satisfactory performance.

DESCRIPTION OF THE YELLOWSTONE BANK'S

**COLUMBUS/ABSAROKEE, MONTANA,
NONMETROPOLITAN ASSESSMENT AREA**

The bank operates two full-service branch offices and three ATMs in the nonmetropolitan assessment area. The Columbus/Absarokee nonmetropolitan assessment area is located in south-central Montana and is adjacent to the metropolitan assessment area. The nonmetropolitan assessment area consists of Stillwater County and sections of Carbon County and Golden Valley County. According to 1990 U.S. Census data, the population of the bank's nonmetropolitan assessment area is 11,910. Columbus, the county seat of Stillwater County, is the largest town in the assessment area. Its 1990 population was 1,573. The bank's offices in Columbus and Absarokee are located in Stillwater County. Other towns in the assessment area include Bridger, Fromberg, and Joliet, Montana.

The bank's nonmetropolitan assessment area consists of nine BNAs, including BNAs 9652, 9653, 9654 and 9655 in Carbon County, BNA 9681 in Golden Valley County, and BNAs 9662, 9663, 9664 and 9665 in Stillwater County. All of the BNAs are classified as middle income except BNA 9655 in Carbon County, which is classified as moderate income. The median family income in BNA 9655 is 62.5% of the nonmetropolitan statewide median family income. The bank's Columbus office is in BNA 9664, and the Absarokee office is in BNA 9665. Based on 1990 U.S. Census data, the statewide nonmetropolitan median family income for Montana is $27,352. As mentioned previously, BNA income levels are determined using this figure. According to 1997 updated census data, the statewide nonmetropolitan median family income for Montana is $36,100. This figure is used to classify income levels of borrowers.

According to the 1990 census data, the nonmetropolitan assessment area's median household income is $21,420, while its median family income is $26,533. Of the 4,651 households in the nonmetropolitan assessment area, approximately 25% are low income, 17% are moderate income, 18% are middle income, and 40% are upper income. The income distribution of the nonmetropolitan assessment area's families is 20% low income, 21% moderate income, 25% middle income, and 34% upper income. Approximately 16% of the households and 11% of the families have incomes below the poverty level. These figures compare to 17% of the households and 13% of the families in the nonmetropolitan areas of Montana.

Examiners contacted a local government official familiar with the area's economic development needs. Information obtained from this individual along with information provided by bank management was used in evaluating the bank's CRA performance in the bank's nonmetropolitan assessment area.

The economy in the nonmetropolitan assessment area has become quite diverse. The agricultural industry continues to be an important sector of the local economy; however, mining, manufacturing, and tourism-related businesses have become major economic sectors. The nonmetropolitan assessment area's population is growing rapidly, especially in Stillwater County. The 1996 estimated population for Stillwater County is 7,653, an increase of 17% since 1990. Carbon County has also seen a similar percentage increase. The community contact stated that part of the growth is attributable to the well-paying jobs available at the Stillwater Mining Co., which mines platinum and palladium ores. The mine employs over 670 people and is one of the largest employers in the bank's nonmetropolitan assessment area. Another factor contributing to the high population growth rate is the area's popularity among retirees. According to the community contact, the area has experienced an influx of people who are purchasing land for retirement homes. As a result of the population growth, the bank's nonmetropolitan assessment area has a severe housing shortage; affordable housing is in particularly short supply. To address the local housing shortage, Columbus recently developed a subdivision for 63 manufactured homes.

According to the 1990 U.S. Census data, approximately 17.2% of the nonmetropolitan assessment area's residents were age 65 and older. The representation of such people in the nonmetropolitan assessment area is higher than in all of Montana's nonmetropolitan areas where the figure is 13.6%. The nonmetropolitan assessment area also has a large number of residents who are age 17 years and younger. Residents in this group represent 28% of the nonmetropolitan assessment area's population. In general, members of these groups have limited need for credit.

CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA-- COLUMBUS/ABSAROKEE NONMETROPOLITAN ASSESSMENT AREA

The bank's CRA performance in the nonmetropolitan assessment area meets the standards for satisfactory performance. The evaluation is based on the performance categories discussed below. In assigning the overall rating for the bank's performance in the nonmetropolitan assessment area, the greatest weight was assigned to the bank's level of lending to borrowers of different income levels and businesses and farms of different sizes as well as to geographies of different income levels. These factors most closely measure the bank's efforts to meet the credit needs of the assessment area.

Loan-to-Deposit Ratio

As discussed on page 5, the bank's net loan-to-deposit ratio is consistent with the lending levels of its competitors. As of September 30, 1997, the bank's net loan-to-deposit ratio for the Columbus/Absarokee nonmetropolitan assessment area was approximately 58%. This figure is slightly lower than the bank's overall net loan-to-deposit ratio. As previously noted, however, the bank's net loan-to-deposit ratio does not include the significant number of residential real estate loans that the bank sells to the secondary market. The bank's Columbus and Absarokee offices booked approximately 28% of the bank's loans and 30% of the bank's deposits. The bank's general lending activity in the nonmetropolitan assessment area is probably limited by age distribution of local residents. As previously discussed, approximately 45% of the nonmetropolitan assessment area's population is in age groups that typically have limited credit needs. The community contact did not identify any unmet credit needs in the bank's nonmetropolitan assessment area.

Based on the competition, the reasonable net loan-to-deposit ratio, and the lack of any identified unmet credit needs in the nonmetropolitan assessment area, the bank meets the standards for satisfactory performance in this category.

Comparison of Credit Extended Inside and Outside the Assessment Area

As discussed on page 5, the bank makes a significant majority of its loans within its two assessment areas. As previously discussed, the bank's performance exceeds the standards for satisfactory performance in this category.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

The bank's level of lending to borrowers of different income levels and to businesses of different sizes meets the standards for satisfactory performance. As previously discussed, CRA classifies income into four categories: low, moderate, middle, and upper. For purposes of classifying the bank's borrowers in this assessment area, the 1997 statewide nonmetropolitan median family income is compared to borrowers' incomes. The following table shows the percentage of consumer and residential real estate loans to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS*				
Loan Type	**Low-Income Borrowers**	**Moderate-Income Borrowers**	**Middle-Income Borrowers**	**Upper-Income Borrowers**
Consumer				
Total Number of Loans	34%	33%	23%	10%
Total Amount of Loans	20%	42%	31%	7%
Residential Real Estate				

Total Number of Loans Total Amount of Loans	11% 3%	20% 18%	36% 29%	33% 50%
*Income level based on 1997 Billings MSA median family income of $43,900 or 1997 Montana statewide nonmetropolitan income of $36,100.				

The data in the table indicate that the bank originated a significant majority, 67%, of its consumer loans to low- and moderate-income borrowers. In addition, it extended 31% of its residential real estate loans to low- and moderate- income borrowers. As previously mentioned, approximately 42% of the households and 41% of the families in the nonmetropolitan assessment area are classified as low and moderate income. While the number and amount of residential real estate loans extended to low- and moderate-income borrowers appears low, it is reasonable. Much of the residential real estate lending originated from this assessment area consists of construction loans for new residents who are building retirement homes. Typically, the price for retirement homes is high because of the costly amenities desired by the homeowners and the lack of utility connections in many of the nonmetropolitan assessment area's remote locations. Connecting sites to utilities increases the construction costs of these homes.

A review of the bank's small business/small farm loan sample reveals that all of the loans in the sample were made to entities with gross annual revenues of $1 million or less. In addition, 93% of the loans in the sample were for amounts of $100,000 or less. This distribution is consistent with the bank's asset size and the commercial and agricultural market in the bank's nonmetropolitan assessment area.

The bank's high percentage of loans to small businesses and small farms and its high level of consumer loans to low- and moderate-income borrowers demonstrate its commitment to meeting the credit needs of all residents of the nonmetropolitan assessment area. Given the predominance of agricultural and commercial loans in bank's portfolio, and since the concentration of small farm and small business loans reflects the concentration of these entities in the community, the bank's performance meets the standards for satisfactory performance in this category.

<u>Geographic Distribution of Loans</u>

The distribution of the bank's loans throughout its assessment area is reasonable. As previously mentioned, the nonmetropolitan assessment area includes one moderate-income BNA and eight middle-income BNAs. There are no low- or upper-income BNAs in the assessment area. The following table illustrates the distribution of loans by BNA income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL		
Loan Type	**Moderate-Income BNA**	**Middle-Income BNAs**
<u>Consumer</u>		

Total Number of Loans Total Amount of Loans	2% 1%	98% 99%
Residential Real Estate Total Number of Loans Total Amount of Loans	 0% 0%	 100% 100%
Small Business/Small Farm Total Number of Loans Total Amount of Loans	 14% 17%	 86% 83%

As the data show that bank's lending activity in the moderate-income BNA is limited. Nonetheless, it is not unreasonable. First, the bank's failure to extend residential real estate loans in the moderate-income BNA is reasonable given that geography's demographics. According to 1990 census data, the population of the moderate-income BNA is 817, which is merely 7% of the nonmetropolitan assessment area's population. The moderate-income BNA has 238 owner-occupied housing units, 6.9% of the total owner-occupied units in this assessment area. The median value of the moderate-income BNA's housing is $55,800, which is higher than the comparable figure, $51,019, for the middle-income BNAs. Opportunities to extend commercial and agricultural loans are greater in the nonmetropolitan area's moderate-income BNA, and the loan data reveal that the bank extends numerous small business/small farm loans in the moderate-income BNA. A tract-by-tract analysis reveals that loans are reasonably distributed throughout the middle-income BNAs. Based on these factors, the bank's level of lending to geographies of different income levels appears reasonable and meets the standards for satisfactory performance.

<u>GENERAL</u>

The evaluation did not reveal any substantive violations of the fair lending and fair housing laws and regulations. However, it did reveal a violation of technical requirements of Regulation B--Equal Credit Opportunity Act and a technical violation of the data collection requirements of Regulation C--Home Mortgage Disclosure Act. Bank management promised to correct the violations promptly. The bank has not received any CRA-related complaints since the last evaluation.

PUBLIC DISCLOSURE

November 3, 1997
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Yellowstone Bank
Name of Depository Institution

093006700000
Identification Number of Institution

Laurel, Montana
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55480-0291